

We pledge to continue the work that God has called us to do as long as we live.
Thank you.

MEXICO AT A CRITICAL JUNCTURE

HON. BILL RICHARDSON

OF NEW MEXICO

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 9, 1996

Mr. RICHARDSON. Mr. Speaker, I am taking this opportunity to share with my colleagues a brilliant analysis of the political and economic crisis in Mexico. The essay discusses the multiple causes that triggered the Mexican crisis, explains the measures that the Mexican Government has implemented to overcome the crisis and offers insights of the position our Government should adopt to help this troubled developing nation to flourish again.

This report was written by C. Allen Ellis—a well-known international specialist who has demonstrated outstanding leadership and diplomatic skills and whose opinion is respected in our country, Mexico and in the international financial circles. Among the multiple duties of his professional life, Mr. Ellis has served as an advisor to senior political, diplomatic, and financial authorities of the United States and Mexico. He also participated in the North American Free Trade Agreement process as advisor to key members of the United States Congress, the Government of Mexico and Mexico, private sector interests. And most importantly, Mr. Ellis is an active member of the North American Institute, an international think tank based in the heart of my district in Santa Fe, NM. I believe that my colleagues will benefit greatly from Mr. Ellis' report.

MEXICO AT A CRITICAL JUNCTURE

(By C. Allen Ellis)

THE 1994-1995 CRISIS

The years 1994-1995 were two of the most turbulent years in Mexico's modern history since the Revolution of 1910. An indigenous uprising in the southeastern state of Chiapas, which could represent a flashpoint for the vast number of our southern neighbor's rural and urban poor, continued to fester. Luis Donaldo Colosio, the presidential candidate of the country's dominant political party for 65 years, the Partido Revolucionario Institucional ("PRI"), was assassinated March 23, 1994 as he initiated his campaign, and a possible conspiracy and its participants is an issue which the judiciary and law enforcement branches of the government have been unable to resolve to date.

A relatively unknown substitute and politically inexperienced PRI candidate, Ernesto Zedillo Ponce de León, was elected President September 1, 1994, in what observers and participants alike concluded was a model democratic election in Mexico.

The above dramatic events, along with a continuing rise in international interest rates, and a massive acceleration in Mexico's balance of trade and current account deficits, resulted in a growing erosion of confidence by foreign and Mexican investors alike in Mexico and in its capital market, which the bulk of capital flows earlier had found attractive, notably in the form of "Tesobonos", short-term, high-yielding, essentially dollar-denominated instruments.

The Government of Mexico's reliance on "Tesobonos" and on escalating short-term internal financing to meet its short and

long-term financial needs, was compounded by the failure of the outgoing administration of President Carlos Salinas to address the challenging issue of an over-valued currency. The international financial community would have accepted a devaluation prior to its leaving office, given its confidence in Mexico's outgoing political leadership and financial authorities, but the decision was made to avoid this unpalatable choice.

President Ernesto Zedillo and his inexperienced political and financial team were thus confronted, three weeks after taking office, with the fateful necessity to devalue. It was, inevitably, a failure, given its having to be attempted before the new administration had established its political and financial credibility compounded by its handling of the devaluation proper.

The result of the above-described confluence of events was a crisis year 1995 in which Mexico experienced its worst recession since 1932 with a fall in its gross domestic product of 6.9% inflation in excess of 50%, its currency devalued by a third against the dollar, at least 15,000 business failures, additional millions of unemployed or underemployed and a shattering loss of confidence by the Mexican people at all levels of society in the workings of their traditional political system and in their political and economic governance.

Fortunately for Mexico, and in the national self-interest of our own country, President William Clinton, his financial team and the Federal Reserve Board were joined by the international financial community and key members of both parties in our Congress in approval of timely and massive financial assistance to Mexico. This was in response to the economic stabilization program adopted by President Zedillo and Treasury Secretary Guillermo Ortiz, in close consultation with Secretary Robert Rubin and his team at Treasury working in tandem with the international financial agencies.

THE PRESENT ECONOMIC SCENARIO

At the recent Mexican Bankers Convention held March 15-16 the mood of the assembled banking representatives and senior government officials was realistic, if not somber. It was in striking contrast to the prior gathering in October 1994 where outgoing President Carlos Salinas presided and lauded his Treasury Secretary for his abilities and loyalty.

President Zedillo in his address to the 1996 assemblage reiterated that the economic austerity program of his administration would be continued. Treasury Secretary Ortiz thereafter described the slowing in the fourth quarter of 1995 of the economy's free-fall in the second and third quarters. He predicted that a slow recovery, and fall in Mexico's continuing inflation, would begin in the second quarter of 1996, making possible achievement of the 3% growth rate target for the year with moderating inflation.

However, the assembled Mexican and foreign bankers remained particularly troubled by the continuing crisis in the banking system where prevailing interest rates of 40% and higher, similar bad debt levels as a percentage of loans, and a growing non-payment mentality by borrowers, even when able to repay, were of increasing concern.

Our country's 1995 trade deficit of \$15.4 billion with Mexico was the first year since 1990 that imports exceeded exports, and was principally due to Mexico's deep recession, the devaluation of its currency and our own booming demand. Our exports to Mexico, in a total of \$46.3 billion, were down approximately 9% from their 1994 level but still 11% higher than in 1993, the year before NAFTA took effect. Despite earlier dire forecasts by Ross Perot and others of the effect NAFTA would have on employment, the Department

of Labor has reported that between January 1994 and February 1996 it certified for assistance 58,600 workers whose loss of jobs could be attributed to NAFTA, far fewer than had been predicted.

PRESIDENT ERNESTO ZEDILLO AND HIS POLICIES.

President Zedillo has begun his six-year term to end in the year 2000 embarked on a program to open and democratize Mexico's one-party political system, reform the authoritarian nature of its presidency, enhance the role of the legislative and judicial branches of government, and decentralize its federal-state relationships, all the while confronting Mexico's shattered economy and banking system. He has chosen a herculean course which, if successful, could dramatically change Mexico and result in its political modernization.

Many Mexicans, particularly among traditional political figures and their counterparts in the private sector, question whether this is the right course for Mexico and do not believe President Zedillo and his team have the experience, political skills and public support to accomplish the fundamental transformation involved. Notwithstanding there appears to be a gradual realization that President Zedillo, given his resolute and stubborn nature, will stay his present course. However, to assure the long-term success of this program his administration and he must develop greater political support at all levels within Mexico.

The importance of Mexico to our own country merits increasing appreciation here, not only as our partner with Canada in NAFTA, but as proof of the world's leading industrial democracy and a troubled developing nation, with which it shares a 3,000 mile border, can address their many common problems and prosper together.

IN HONOR OF ZUBERI MCKINNEY

HON. DOUGLAS "PETE" PETERSON

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 9, 1996

Mr. PETERSON of Florida. Mr. Speaker, on March 6, 1966, Zuberi McKinney, the beloved son of the U.S. Army Sgt. Maj. Gene C. McKinney, died as a result of a tragic automobile accident in Tallahassee, FL. Zuberi was 18 years old and attending his first year of college at Florida A&M University. Sergeant Major and Mrs. McKinney are long time residents of the Second Congressional District of Florida which I serve.

I lost my 17-year-old son several years ago in an accident very similar to that experienced by the McKinney family and know only too well the pain a family suffers having sustained a loss of this magnitude. It is a pain that never goes away, however there is comfort in that loved one's memory.

Today, Mr. Speaker, I wish to enter into the RECORD the words of Zuberi McKinney's parents as they celebrate Zuberi's 19th birthday. The composition speaks for itself in terms of compassion and grief, but it also speaks eloquently of a strong, close, loving family. A family whose bonds cannot be broken even in death.

IN HONOR OF ZUBERI MCKINNEY

Our Dear Son,

You've heard us say to you many times how we will always be proud of you and love you, No Matter What.

Today Dad and I were reminiscing about the Earthly life you have had and we have had because of you.